

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

----- In the Matter of -----)
)
PUBLIC UTILITIES COMMISSION) DOCKET NO. 05-0002
)
Instituting a Proceeding to Investigate the)
Issues and Requirements Raised by, and)
Contained in, Hawaii Revised Statutes)
486H, as Amended)
_____)

**SHELL OIL COMPANY'S PRELIMINARY COMMENTS ON THE
ICF CONSULTING REPORT REGARDING RECOMMENDATIONS TO
MODIFY HAWAII REVISED STATUTES CHAPTER 486H, GASOLINE PRICE
CAP LEGISLATION, FOR THE ETHANOL MANDATE, HAWAII
ADMINISTRATIVE RULES, TITLE 15, CHAPTER 35**

AND

CERTIFICATE OF SERVICE

FILED
2006 MAR 28 A 11:34
PUBLIC UTILITIES
COMMISSION

KOBAYASHI SUGITA & GODA

CLIFFORD K. HIGA 2950-0
BRUCE NAKAMURA 6518-0
KENNETH M. NAKSONE 6942-0
999 Bishop Street, Suite 2600
Honolulu, HI 96813
Telephone No.: (808) 539-8700
Attorneys for SHELL OIL COMPANY

**SHELL OIL COMPANY'S PRELIMINARY COMMENT ON
ICF CONSULTING REPORT REGARDING RECOMMENDATIONS TO
MODIFY HAWAII REVISED STATUTES CHAPTER 486H, GASOLINE PRICE
CAP LEGISLATION, FOR THE ETHANOL MANDATE, HAWAII
ADMINISTRATIVE RULES, TITLE 15, CHAPTER 35**

Shell Oil Company ("Shell"), by and through its attorneys Kobayashi, Sugita & Goda, hereby submits its preliminary written comments to the ICF Consulting Report Regarding Recommendations To Modify Hawaii Revised Statutes Chapter 486h, Gasoline Price Cap Legislation, For The Ethanol Mandate, Hawaii Administrative Rules, Title 15, Chapter 35 ("ICF Ethanol Report"). Shell's comments herein are without prejudice to, and shall not be deemed a waiver of any legal rights or privileges. Further, Shell reserves its right to supplement this response as it was only provided with the ICF Ethanol Report on Thursday, March 23, 2006 and the deadline for this response was set for Tuesday, March 28, 2006 at noon.

A. Ethanol Pool Price Determination Reporting Requirements

To the extent that the PUC employs ICF's recommended "Ethanol Pool Price Determination Process", Shell agrees with ICF that it "may be an undue burden on the Parties to request that documentation [of ethanol volumes] every week". ICF Ethanol Report, at 21. Shell further agrees that:

the inclusion of the "cargo-based" resale transactions and the determination of the ethanol pool value on a weekly basis adds a complexity into the gas cap determination process that *adds a burden to the Commission as well as the Parties* to determine and report import and cargo-based resale transactions in a prompt manner."

ICF Ethanol Report, at 22 (emphasis added).

Thus, given the undue burden and the realities of gathering the data to be requested, Shell requests that the PUC, at minimum, consider the “Alternative Ethanol Pool Process”. ICF Ethanol Report, at 22-23. The proposed alternative would require monthly and, preferably quarterly, calculations and reporting of ethanol transactions. *Id.*

Moreover, even if the PUC alleviates some of the reporting requirements by requiring monthly or quarterly reporting, Shell notes that there will still be significant costs of compliance with the ethanol reporting requirements that are not even being considered in the ICF Ethanol Report. ICF’s proposed ethanol pool process and its other ethanol recommendations increase the already burdensome monitoring, reporting and enforcement costs associated with the gasoline price cap. As with the gasoline price cap monitoring and enforcement requirements, the Parties are once again being asked to incur significant costs of compliance without any opportunity to recoup those costs. Accordingly, Shell requests that the PUC strive to minimize reporting requirements and/or fairly compensate Shell and the other Parties for their administrative costs.

B. Additional Inventory Requirements

ICF correctly identifies that an additional cost factor is necessary to accommodate the increase in inventory costs due to the Ethanol Mandate. ICF Ethanol Report, at 30. Therefore, ICF has recommended a .26 cpg fixed addition to the gas cap formula to address additional working capital requirements of the Ethanol Mandate:

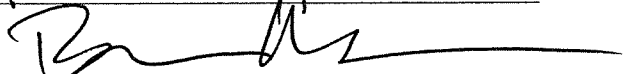
On Hawaii’s daily gasoline sales of roughly 1.30 million gallons per day and assuming a 6% interest rate, this amounts to about 0.26 cpg additional working capital requirement as a result of the Ethanol Mandate.

ICF recommends that this increase be included as a fixed addition to the gas cap formula for all E-10 gasoline sold (this, it would not apply in Zones 5 and 6, if they maintain conventional gasoline sales). Changes in ethanol and gasoline price and in absolute inventory volume may affect the calculation, but the overall size of the adjustment and minimal availability of spot-in-time inventory would not merit re-calculation on a weekly basis.

ICF Ethanol Report, at 30-31.

As to this .26 cpg fixed addition to the gas cap formula, it is not readily apparent to Shell as to whether this recommended factor is reflected in the "Summary Of Recommended Gas Cap Modifications for the Ethanol Mandate" ("ICF Summary"). ICF Ethanol Report, at 32-37. As such, Shell respectfully requests clarification as to how this recommended .26 cpg fixed addition to the gas cap formula is being reflected in the ICF Summary. While Shell would support an increase along those lines, it unable to presently provide a final position on the issue until it receives further information from the PUC/ICF as to the treatment of the .26 cpg factor.

DATED: Honolulu, Hawaii

March 28, 2006

CLIFFORD K. HIGA
BRUCE NAKAMURA
KENNETH M. NAKASONE
Attorneys for SHELL OIL COMPANY

CERTIFICATE OF SERVICE

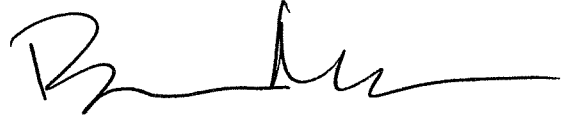
The undersigned hereby certifies that a true and correct copy of the above document was duly served upon the following parties in the manner described at their following last known addresses:

| | <u>HAND- DELIVER</u> | <u>U.S. MAIL</u> |
|--|--------------------------|------------------|
| NICHOLE SHIMAMOTO, ESQ. Commission Counsel Hawaii Public Utilities Commission 465 S. King Street, Suite 103 Honolulu, HI 96813 | X | |
| JON S. ITOMURA, ESQ. Division of Consumer Advocacy Dept. of Commerce and Consumer Affairs 335 Merchant Street, Rm. 326 Honolulu, Hawaii 96813 | X | |
| MICHAEL H. LAU, ESQ. KENT D. MORIHARA, ESQ. Davies Pacific Center 841 Bishop Street, Suite 400 Honolulu, HI 96813 Attorneys for CHEVRON U.S.A. INC. | X | |
| CRAIG I. NAKANISHI, ESQ. Pacific Guardian Center, Mauka Tower 737 Bishop Street, Suite 2400 Honolulu, HI 96813 Attorney for TESORO HAWAII CORP. | X | |

KELLY G. LAPORTE, ESQ.
MARC E. ROUSSEAU, ESQ.
Cades Schutte Building
1000 Bishop Street, Suite 1200
Honolulu, HI 96813
Attorneys for HAWAII PETROLEUM
MARKETERS ASSOCIATION

X

DATED: Honolulu, Hawaii, March 28, 2006.

A handwritten signature in dark ink, appearing to read "Clifford K. Higa", written over a horizontal line.

CLIFFORD K. HIGA
BRUCE NAKAMURA
KENNETH M. NAKASONE
Attorneys for SHELL OIL COMPANY